A meeting of the Audit Committee of the Board of Trustees of the University of Vermont and State Agricultural College was held on Thursday, October 16, 2008 in Room 351 Waterman Building.

MEMBERS PRESENT: Chair Edwin H. Amidon, Jr., Vice Chair Bill Botzow*, Jeffrey Davis*, Susan Hudson-Wilson*, Beth Rice, John Snow and Jeanette White*

MEMBER ABSENT: Samuel Bain

REPRESENTATIVES PRESENT: Faculty Representative Bud Meyers *, Staff Representative Jeff Bukowski, Alumni Representative Bill Cimonetti and Student Representative Megan Benay

PERSONS ALSO PARTICIPATING: Daniel Fogel, President, Richard Cate, Interim Vice President for Finance and Administration and University Treasurer, Francine Bazluke*, Vice President for Legal Affairs and General Counsel, Charles Jefferis, Associate Vice President for Institutional Risk Assessment and Audit Services, and Tanya Morehouse*, Vermont State Auditors Office

*Via teleconference call

Chair Edwin Amidon, Jr. called the meeting to order at 1:00 p.m.

Approval of Minutes

A motion was made, seconded and voted to approve the minutes of the October 6, 2008 meeting.

Discussion and Approval of External Audit RFP

Chair Amidon reported that the RFP Subcommittee and Acting State Auditor Tanya Morehouse met on Monday morning with General Counsel Francine Bazluke and Vice President Richard Cate to review the draft External Audit RFP prepared by Mr. Cate’s office. The 2002 RFP and standard University RFP forms were used as a baseline.

Ms. Hudson-Wilson expressed concern that the results of the Deloitte report were not reflected in this RFP. Mr. Cate replied that the plan was to get this RFP out in a timely manner and then inform finalists of the Deloitte report findings during the interview process. It is felt that the results of the Deloitte report should not be discussed on–line. This report still needs to be reviewed by the Executive Committee as well as the full Board of Trustees and the RFP needs to go out before then. It has been prior experience that additional tasks are asked of the audit firm from time to time so that it will be possible to request focus on Deloitte issues after a firm is retained.

There were significant changes to the form from the 2002 RFP. Mr. Amidon thanked Ms. Morehouse for her detailed review and input on best practices. A motion was made and seconded to approve the RFP for Independent External Audit Services subject to
final proofreading and checking by Ms. Bazluek regarding the introductory background information about the University.

**Management’s Preliminary Response to the Deloitte Audit**

Mr. Cate gave an overview of the draft response, which is attached to these minutes. He reported that all university policies were now together on the same website. Looking forward, he plans to create a single manual with all financial policies and procedures grouped together. Work needs to continue to keep this up-to-date with best practices. An interim code of business conduct was sent out by President Fogel this week, including the whistleblower policy.

Bill Botzow showed concern that the President’s response was not done in a point by point format. Mr. Cate replied that he didn’t use that style but had responded to each observation made by Deloitte. He had spoken to the Deloitte engagement manager and the manager agreed that the response had answered all their concerns.

After discussion regarding the format of the response, members indicated a preference for a management letter type form, although the draft had in substance provided a complete response to the Deloitte recommendations. Mr. Cate replied that the management letter form would be prepared and the draft response retained as a narrative and executive summary document.

Members discussed with Mr. Cate the hiring of a manager of internal controls who would report to Mr. Cate and perform a function separate and apart from the Internal Auditor function. Members supported this initiative. John Snow stated he felt the code of conduct should be sent out annually and signed off by each employee or somehow embedded in the computer system.

**Other Business**

At 2:20 p.m. a motion was made, seconded and approved to go into executive session to discuss a personnel matter and to receive advice of counsel.

**Adjournment**

The meeting was re-opened to the public at 2:35 p.m. There being no further business, the meeting was adjourned at 2:40 p.m.

Respectfully submitted,

Edwin H. Amidon, Jr.
Chair
The Internal Controls Review and associated work plan compiled by Deloitte LLC for the UVM Board of Trustees identified the following areas as being in need of improvement: the procurement process, the budgeting process, the use of automated controls in our PeopleSoft enterprise financial management system, the roles of the University’s Institutional Compliance Office and the Audit Committee, and training. What follows is an outline of how the President proposes to respond to the review with the Interim Vice President for Finance and Administration (“Interim Vice President”) taking the lead in implementing these actions. This response is the first step in creating a reinvigorated, disciplined and pervasive culture of accountability and responsibility at the University. In order to meet their fiduciary responsibilities to the institution and those that support it, campus leaders at all levels must actively engage in this effort. Even though we are going to greatly enhance accountability, we are going to do so in a manner that makes our processes and provision of services to faculty, staff and students more efficient and transparent.

**General:** As noted in the review, “[t]he University has published … relevant and applicable policies” and also has procedures related to purchasing and financial controls. There is not, however, an all-encompassing financial procedures manual to which faculty and staff may refer to find everything they need to know about appropriate financial policies and procedures. Therefore, one initial response to the review will be the creation of such a document (web-based), which will incorporate existing policies and procedures that are appropriate, modify others and add those that are necessary but not currently in place. The University will also adopt a Code of Business Conduct that will require all University personnel to take responsibility for safeguarding and preserving institutional resources. This Code will further clarify the fact that it is the responsibility of all supervisors to ensure that their personnel receive adequate information and training to understand all laws, regulations and University policies and procedures and that they discharge their duties accordingly.

**Procurement:** The Interim Vice President and procurement staff will undertake a detailed review of the procurement cycle, benchmark best practices and identify control objectives and activities within the cycle. Key elements of this effort will be to clearly communicate required procedures and make operational, within the PeopleSoft enterprise system, controls that require prior, appropriate-level approval of planned expenditures. Procurement will also be tightly linked to the budget so that expenditures in excess of the budget for the activity cannot be made without the appropriate authority. The content and
the rationale for these controls will be communicated to all faculty and staff and every effort will be made to make the process user-friendly and simple, while assuring adequate control over the process. The Interim Vice President has begun conversations with the University Business Council about user issues that will have to be addressed in the course of this work. The adequacy of staffing to meet essential needs is presently under intensive review, and an assessment will be presented to the Board on an expedited basis. In addition, we contemplate that, as part of a reorganization of the controller function at the University, the Director of Procurement will report directly to the Controller who will report to the Interim Vice President.

**Budgeting Process:** The Interim Vice President will implement budget reporting procedures, which will include thresholds for disclosure. In order to create a transparent budget process, the Interim Vice President will submit to the President and the BFI Committee monthly budget reports with explanations of variances from expected budget conditions. Budget staff has created budget reports that will be available, on an ongoing basis, to all University faculty and staff that have budgetary responsibilities. The recent implementation of a process that “closes the books” on a monthly basis will further enhance the ability of all involved to have timely and accurate budget reports. In order to provide more accountability, beginning at the end of the second quarter of this fiscal year, vice presidents and deans will certify in writing their individual unit’s budget reports and the President, the Provost and the Interim Vice President will jointly certify the combined budget report for the entire University. Subject to the approval of the President and Provost, the Interim Vice President will implement standardized procedures for budget development to be utilized by the deans and the vice-presidents.

**Automated Controls within PeopleSoft:** The newly appointed Director of Business Practices and Planning has led the Business Process and Reengineering Team (BPRT) for the past two years. This team is intimately familiar with the capacity of the PeopleSoft system and its automated controls. The Team has already begun analyzing what will be required to implement some modules of the system and to reconfigure others so that they emulate best financial practices. The Interim Vice President will report to the President and the Audit Committee regarding which controls are being implemented. The controls will be mapped to the appropriate tools and settings available within the PeopleSoft system. If there are gaps in the current capacity of the system, it will be reconfigured or supplemented to fit the need. Some aspects of this work are likely to take longer than others. Therefore an incremental approach will be developed to expedite the process.

**Internal Audit:** With the Audit Committee, the President will review the adequacy of staffing and other resources allocated to this important function, and prompt action will be undertaken in response to their findings and conclusions. Among the priorities we have already identified is for Internal Audit to conduct a University-wide risk assessment. This risk assessment will be used as a tool to develop a multi-year audit plan that will be submitted to the Audit Committee for its approval. Both the risk assessment and the audit plan will meet the standards established by the Institute of Internal Auditors and the National Association of College and University Business Officers. Another priority we have identified is assessment of the status of the compliance function. Following a report and recommendations to the Audit Committee, we will institute whatever adjustments to the compliance program are indicated to ensure that it is sound and effective in view of appropriate benchmarks. Finally, the President will recommend to the Audit Committee that the Chief Internal Auditor report directly and functionally to the Audit Committee, and administratively to the President, thus eliminating from the responsibilities of the
Vice President for Finance and Administration any operational oversight of the Chief Internal Auditor or Internal Audit Office

**Training:** As noted above, the Interim Vice President has begun conversations with the University Business Council about the plan for making changes in financial controls and practices. Although the Interim Vice President will be responsible for implementing these changes, the Director of Business Practices and Planning is responsible for ongoing communications with this group and other campus leaders about proposed changes to University business practices. She is charged with seeking input and addressing user needs in an environment of enhanced financial controls. These ongoing conversations will be an important part of the initial user training. Once the financial procedures manual is adopted, both users and control agency personnel will be trained in the new procedures and compliance requirements. The training will be reinforced by an automated system (PeopleSoft) that will impose controls that do not currently exist. The University will use an on-line code of conduct training module to further reinforce appropriate compliance with financial policies and procedures.

**Whistleblower Policy:** The University will update its whistleblower policy, which will include a reference to a hotline number that will be staffed by an external entity. All faculty and staff will receive a quarterly reminder regarding the existence of and the web URL of the whistleblower policy.

**Timetable for Implementation:** Much of this work has already been initiated and will be complete by December 31, 2008. However, it is likely that it will take somewhat longer (March 31, 2009) to complete the risk assessment, create an audit plan based on the assessment data, and complete the initiation and reconfiguration of some of the PeopleSoft financial controls. Regarding PeopleSoft, the extended time frame is necessary partially due to the fact that it will simply take longer to do the technical work, but also because we must ensure that the users have time to be trained and adjust to an environment with far more financial controls. We want our operations to run smoothly while we incrementally enhance our financial control capacity.

**Scope of Services for External Assistance during Implementation:** To implement this plan, the Interim Vice President recommends contracting for the assistance of an audit firm that would review the progress and quality of the response to the Internal Controls Review and report to the Audit Committee on a monthly basis for a period of five months (November 1, 2008 – March 31, 2009). This should involve a fixed a price hourly rate contract with a total cost not to exceed $25,000. Once the staffing needs of the Internal Audit Office are resolved by the President and the Audit Committee, the President will seek appropriate authorization for any proposed new expenditures.

**Conclusion:** Most of the work outlined above is not particularly complex. We simply need to make standard financial practices an integral part of the culture of the institution and to provide people the tools necessary to do their work in a more controlled environment. We will make these changes and others as we work towards a model of continuous improvement to preserve the assets of the University and enable the continued forward progress in our dedication “to providing students with extraordinary opportunities for learning and personal development.”

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1 University Vision Statement